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Iceland Leading Indicator – Projections of continued recovery but uncertainties looming

The Iceland Composite Leading Indicator (CLI) rose in June. Despite various uncertainties there is still outlook for continued recovery at least into the latter half of year 2022. Tourism seems to be on a strong recovery path. However, the deviation of the CLI above the base value of 100 is already large in historical perspective. Hence, the CLI seems to be entering a zone where a turning point might occur. Also, three components decline on the month, including the Gallup index of Consumer Confidence and domestic Debit Card turnover.

Three out of six CLI components rise on the previous month. The largest contributions are due to an increase in tourist arrivals, an increase in merchandise imports and in fish catches. Despite the strong outlook there remains uncertainty regarding developments in the tourism industry, the war in Ukraine and in the evolution of the pandemic. The developments in financial markets are also a risk factor in view of rising inflation as various central banks are in the process of reducing the monetary slack.

Turning points of the CLI tend to precede turning points in economic activity relative to trend by approximately six months. Economic activity in terms of GDP is measured by Statistics Iceland. The calculation of Analytica's CLI is based on methodology adopted by the OECD.

Chart 1. GDP and Analytica's CLI – Trend Adjusted

Long term trend = 100

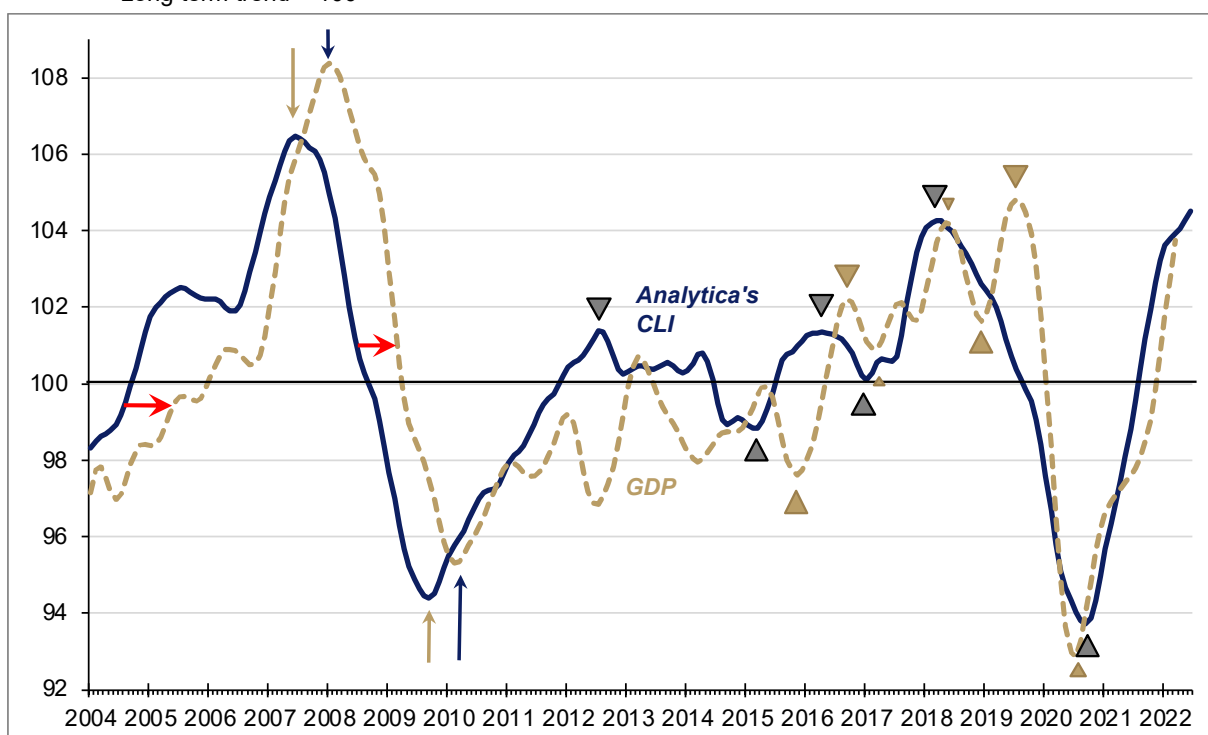
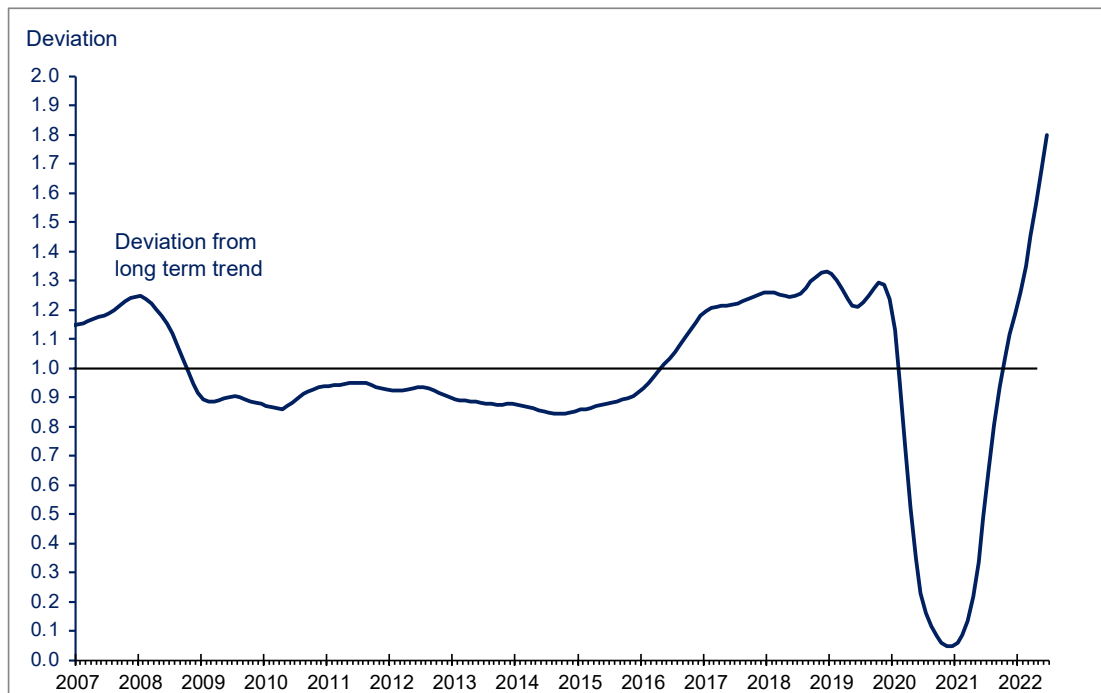


Chart 1 depicts Analytica's CLI together with trend adjusted GDP. The chart shows that the CLI leads GDP on average by around six months.

Chart 2 depicts the developments of tourist arrivals to Keflavík International Airport seasonally adjusted and smoothed for the period 2007-2022. This is one of the CLI components albeit one of the less leading components.

The dark blue curve in chart 2 shows the deviation of the number of tourist arrivals from the long-term trend. Seasonally adjusted tourist arrivals have continued their rise relative to the long-term trend. This is one of the components driving the rise of the CLI during the last few months whereas some other components are falling.

Chart 2. Tourist arrivals at Keflavik Int. Airport – Deviation from long term trend
Seasonally adjusted and smoothed



The same curve as shown in chart 2 is depicted in the Appendix chart A2. The purpose of chart 2 is to highlight the developments of tourist arrivals.

There are six components of Analytica's CLI. These are: Fish catches, inflation adjusted debit card turnover, number of tourists visiting Iceland, the MSCI World equities index, inflation adjusted imports and the Gallup Index of Consumer Confidence. For the month of June, four out of six underlying components rise year on year. However, only three out of six components rise on the previous month. See Appendix, Charts A1 and A2.

Some revisions to the CLI values have taken place. This is a result of component revisions and in part a result of the methodology employed, including the long-term trend estimate.

Table 1 shows the development of the CLI during the past twelve months. The index for June rose on the month to a value of 104.5. This serves as an indicator to economic activity six months into the future, i.e. December 2022. A value of 100 indicates GDP in line with its long-term trend.

Table 1. Analytica's CLI 2021-2022

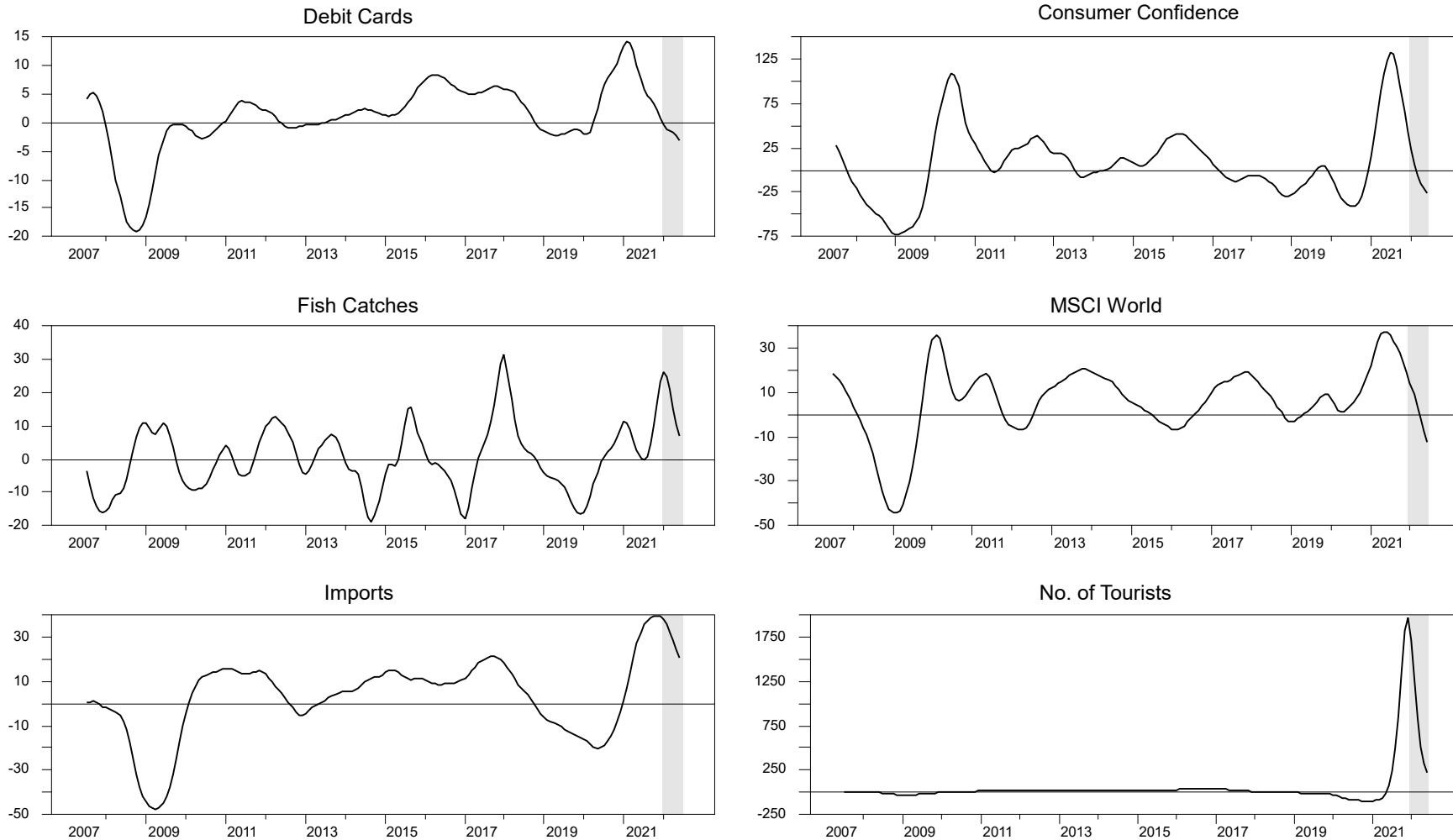
	<u>Index</u>	<u>Change in %</u>		<u>Indication for month</u>
		<u>on month</u>	<u>YOY</u>	
2021				
June	98.8	0.7%	4.7%	Dec.
July	99.6	0.8%	5.9%	Jan. 2022
August	100.4	0.8%	7.0%	Feb.
September	101.2	0.8%	7.9%	March
October	101.9	0.8%	8.6%	April
November	102.6	0.7%	8.8%	May
December	103.2	0.6%	8.7%	June
2022				
January	103.6	0.4%	8.3%	July
February	103.8	0.2%	7.8%	August
March	103.9	0.1%	7.3%	Sept.
April	104.1	0.1%	6.8%	Oct.
May	104.3	0.2%	6.3%	Nov.
June	104.5	0.2%	5.8%	Dec.

The July Composite Leading Indicator is scheduled for release on August 23, 2022.

**Further information is provided by Analytica's CEO, Mr. Yngvi Hardarson
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Chart A1 - Analytica's Leading Indicator - Individual Components

*Per cent Change Year on Year **



Notes:

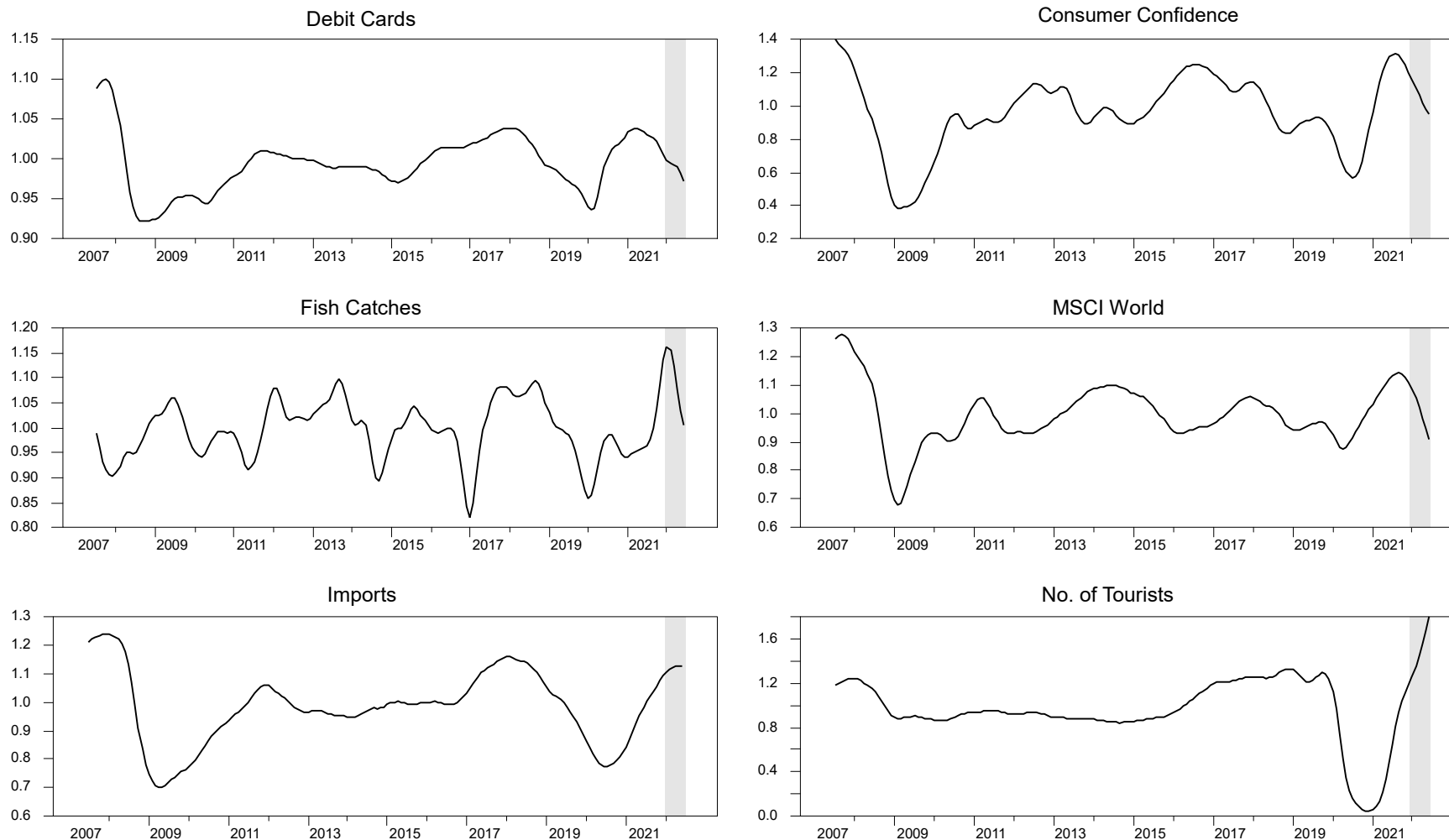
Debit Cards: Domestic debit card turnover, inflation adj. – Fish Catches: Chain linked volume index. – Imports: Inflation adjusted imports. * Not Trend Adjusted
 Cons. Confidence: Gallup Index of Consumer Confidence. – MSCI World: MSCI World equities index. – No. of Tourists: No. of passenger arrivals at Keflavik Airport.
 All figures are seasonally adjusted and smoothed. – Shadow on charts covers latest six months data.

Sources:

Gallup Iceland, Statistical Bureau of Iceland, Central Bank of Iceland, Refinitiv, Analytica's calculations.

Chart A2 - Analytica's Leading Indicator - Individual Components

Trend Adjusted - Trend=1.0

**Notes:**

Debit Cards: Domestic debit card turnover, inflation adj. – Fish Catches: Chain linked volume index. – Imports: Inflation adjusted imports.
 Cons. Confidence: Gallup Index of Consumer Confidence. – MSCI World: MSCI World equities index. – No. of Tourists: No. of passenger arrivals at Keflavik Airport.
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About Analytica

Analytica provides independent and value added financial advisory services. The company specializes in treasury and risk management services provided to qualifying investors. The company's position is based on decades of experience and expertise.

The CEO and founder of Analytica is Mr. Yngvi Hardarson.

Mr. Hardarson was born in 1960 and holds an MA degree in Economics from Queen's University of Kingston Canada, with specialization in Econometrics and Monetary Economics. In addition, he holds a certificate in international trade and resource allocation from the Yrjö Jahnsso Foundation in Helsinki, Finland and a CMT designation by the CMT Association in NY.

Mr. Hardarson started his career as an economist at the National Economic Institute in 1988. In 1990 he became the Chief Economist at the Federation of Icelandic Industries. In 1993 he co-founded Economic Consulting and Forecasting Ltd. In 2007 and until the summer of 2010 Mr. Hardarson was employed as a Managing Director at Askar Capital hf. Investment Bank. In the period 1993-2008 Mr. Hardarson also served as the editor of Gjaldeyrismál (FX-mail), a daily and subsequently weekly newsletter on FX, money markets and global economics.

Further information is provided on Analytica's web page <http://www.analytica.is>